

**Eau Claire District Library
Berrien County, Michigan**

Financial Report

July 31, 2008

RENDEL ELIE
— & —
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire District Library

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Independent Auditors' Report

Library Board
Eau Claire District Library
Eau Claire, Michigan

We have audited the accompanying basic financial statements of the Eau Claire District Library as of July 31, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Eau Claire District Library as of July 31, 2008 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Eau Claire District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Eau Claire District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Rendel Elie & Associates, PLC

RENDEL ELIE & ASSOCIATES, PLC

December 17, 2008

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**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2008**

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2008**

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 96,152	\$ 90,050
Capital assets	<u>507,751</u>	<u>502,654</u>
Total assets	<u>603,903</u>	<u>592,704</u>
Other liabilities	23,611	13,064
Long-term debt	<u>-</u>	<u>21,017</u>
Total liabilities	23,611	34,081
Net assets:		
Invested in capital assets, net of related debt	507,751	481,637
Unrestricted	<u>72,541</u>	<u>76,986</u>
Total net assets	<u>\$ 580,292</u>	<u>\$ 558,623</u>
Revenue:		
Property taxes	\$ 137,558	\$ 130,040
Other	<u>86,868</u>	<u>91,276</u>
Total revenue	224,426	221,316
Expenses – library services	<u>202,757</u>	<u>204,492</u>
Changes in net assets	<u>\$ 21,669</u>	<u>\$ 16,824</u>

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2008**

The Library as a Whole

- The Library's net assets increased by \$21,669 this year and \$16,824 the prior year.
- The Library's primary source of revenue is from property taxes, which represents 62% of total revenue as compared to 59% the prior year.
- Salaries and fringe benefits continue to be a significant expense of the Library, representing 60% of the Library's total expenses this year and 55% the prior year.

The Library's Fund

Our analysis of the Library's major fund, the General Fund, is included on page 6 and 7 in the first column of the statement.

The fund balance of the General Fund decreased during the current year by \$3,936 compared to a decrease of \$58,789 the prior year.

Debt service, consisting of principal and interest, was a large use of resources during the current fiscal year. Debt service has become a significant expenditure as a result of the 2002 building addition, which was financed by a \$200,000 bank note. The note was paid in full on May 12, 2008. During the current fiscal year, the principal was reduced by \$21,017 as compared to a reduction of \$80,580 the prior year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$507,751 invested in land, building, furniture and equipment, and books and materials. The library added \$45,212 in capital assets consisting of \$21,435 of furniture and equipment, and \$23,777 in new collection items including new books and audio/visual materials.

No new debt was issued during the fiscal year. The note was paid in full on May 12, 2008. The Library's indebtedness for the building addition was \$21,017 on July 31, 2007.

**Eau Claire District Library
Management's Discussion and Analysis
July 31, 2008**

Library Budgetary Highlights

Over the course of the year, several of the Library's actual expenditures exceeded what was originally budgeted and the budget was subsequently amended in April and July of 2008. The final budget included salaries and fringe benefits and capital outlay that were in excess of actual expenditures and professional services and dues that were below actual expenditures. Total expenditures were \$24,560 over budget and revenue was \$15,438 over budget.

Grant Receipt

In November 2007, the Library of Michigan approved the Library's PAC HUG Round Two application for funding provided the Bill & Melinda Gates Foundation. The Library ordered a computer through the Southwest Library Cooperative in the amount of \$1,011. The Library of Michigan disbursed the grant funds directly to the library cooperative.

Contacting the Library's Management

This financial report is intended to provide a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Eau Claire District Library.

Eau Claire District Library
Governmental Fund Balance Sheet / Statement of Net Assets
July 31, 2008

	General Fund Modified <u>Accrual Basis</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
Assets			
Cash	\$ 93,668	\$ -	\$ 93,668
Municipality receivable	22	-	22
Prepaid expenses	2,462	-	2,462
Capital assets, net	<u>-</u>	<u>507,751</u>	<u>507,751</u>
Total assets	<u>\$ 96,152</u>	<u>507,751</u>	<u>603,903</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 14,294	\$ -	\$ 14,294
Salaries and benefits payable	3,234	-	3,234
Compensated absences:			
Expected to be paid within one year	-	3,592	3,592
Expected to be paid after one year	<u>-</u>	<u>2,491</u>	<u>2,491</u>
Total liabilities	<u>17,528</u>	<u>6,083</u>	<u>23,611</u>
Fund Balance/Net Assets			
Fund balance - unrestricted	<u>78,624</u>	<u>(78,624)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 96,152</u>		
Net assets:			
Invested in capital assets, net of related debt		507,751	507,751
Unrestricted		<u>72,541</u>	<u>72,541</u>
Total net assets		<u>\$ 580,292</u>	<u>\$ 580,292</u>

See auditors' report and notes to financial statements.

Eau Claire District Library
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance /
Statement of Activities
Year Ended July 31, 2008

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 137,558	\$ -	\$ 137,558
Penal fines	70,160	-	70,160
State aid	7,900	-	7,900
Fees and book fines	2,790	-	2,790
Interest and dividends	439	-	439
Contributions and donations	5,866	-	5,866
Gain(loss) on disposal of capital asset	-	(287)	(287)
Total revenue	224,713	(287)	224,426
Expenditures:			
Salaries and fringe benefits	120,357	509	120,866
Library books and materials	23,777	(23,777)	-
Repairs and maintenance	3,203	-	3,203
Utilities	12,428	-	12,428
Professional services and dues	6,112	-	6,112
Office and library supplies	9,903	-	9,903
Insurance and bonds	6,438	-	6,438
Newspaper and publications	1,993	-	1,993
Conventions and workshops	227	-	227
Miscellaneous	758	-	758
Bad debts	400	-	400
Capital outlay	21,435	(21,435)	-
Depreciation	-	39,828	39,828
Debt service:			
Principal	21,017	(21,017)	-
Interest	600	-	600
Total expenditures	228,649	(25,892)	202,757
Excess of Revenue over Expenditures /			
Change in Net Assets	(3,936)	25,605	21,669
Fund Balance/Net Assets - beginning of year	82,560	476,063	558,623
Fund Balance/Net Assets - end of year	\$ 78,624	\$ 501,668	\$ 580,292

See auditors' report and notes to financial statements.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Summary of Significant Accounting Policies

The accounting policies of the Eau Claire District Library conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements, including notes to the financial statements.

Reporting Entity

Eau Claire District Library is a Class III public library. The Library serves a population of 7,549 patrons from the Village of Eau Claire, and the Townships of Berrien and Pipestone.

The Library is defined as a governmental unit under criteria set forth by AICPA’S Audits of State and Local Governmental Units (ASLGU). These criteria include; a Board of Trustees consisting of representative members appointed or elected from the governmental units served and, the power to enact and enforce a tax levy.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in four parts – invested in capital assets; designated net assets; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within ninety days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, penal fines, and fees associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the Library receives cash.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Financial Statement Amounts

Bank Deposits and Investments – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The Library receives an advance from the Berrien County Revolving Fund for delinquent property taxes. The County collects the delinquent property taxes on behalf of the Library.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

Compensated Absences (Vacation and Sick Leave) – It is the library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation and sick leave accrues to full-time, permanent employees to specified maximums.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to changes.

Risk Management - The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee health, property, liability and workers' compensation.

Property Taxes – On August 6, 1996, the electors of the library district, the Eau Claire District Library serves, approved a millage on the taxable property in the district for a period of twenty years. Berrien and Pipestone Townships collect and pay the tax revenues to the Library as collected.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Summary of Significant Accounting Policies (continued)

Budget Information

The annual budget is prepared by the Library Director and adopted by the Library Board; subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (combined statement of revenue, expenditures and changes in fund balances – budget and actual – general fund types) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of the actual results of operations of the General Fund budget, as adopted by the Library Board, is presented in these financial statements.

During the year, the Library incurred expenditures that were in excess of budget by more than \$5,000 in the following categories:

	<u>Budget</u>	<u>Actual</u>
Capital outlay	\$ 2,475	\$ 21,435
Salaries and fringe benefits	115,233	120,357

Cash and Investments

State statutes authorize the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments vehicles legal for direct investment by local units of government in Michigan. The Library is in accordance with statutory authority. The Library has designated a local bank for the deposit of its funds. Its cash and cash equivalents consist of various interest bearing savings accounts, checking accounts and certificates of deposit.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Capital Assets

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Buildings	\$ 505,783	\$ --	\$ --	\$ 505,783
Improvements	55,116	--	--	55,116
Furniture & equipment	250,574	21,435	(6,484)	265,525
Book collection	<u>75,174</u>	<u>23,777</u>	<u>(9,170)</u>	<u>89,781</u>
Total	886,647	45,212	(15,654)	916,205
Accumulated depreciation	<u>(383,993)</u>	<u>(39,828)</u>	<u>15,367</u>	<u>(408,454)</u>
Net book value	<u>\$ 502,654</u>	<u>\$ 5,384</u>	<u>\$ (287)</u>	<u>\$ 507,751</u>

Book Collection

The circulating library book collection and materials is capitalized. Accessions are accounted for in the year acquired. The Library follows a policy of periodically removing books that are in poor condition, not in demand, and/or no longer current. The estimated replacement value of the circulating collection at July 31st was \$421,742 and \$399,231 for 2008 and 2007, respectively.

Long-term Debt

Outstanding debt - The following is a summary of the changes in outstanding debt for the fiscal year ended July 31, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Note payable	\$ 21,017	\$ -	\$ (21,017)	\$ -	\$ -
Compensated absences	<u>5,574</u>	<u>7,078</u>	<u>(6,569)</u>	<u>6,083</u>	<u>3,592</u>
Total long-term debt and other long-term liabilities	<u>\$ 26,591</u>	<u>\$ 7,078</u>	<u>\$ (27,586)</u>	<u>\$ 6,083</u>	<u>\$ 3,592</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the Library's policy employees earn vacation time based on time of service with the Library.

Debt service requirements - On August 6, 2002 the Library entered into an agreement to finance the construction of the building addition. The terms are payable in monthly installments over a 15 year period, at 4.69% for the initial five years. The interest rate will be recalculated at five-year intervals to equal the current five-year US Treasury bill rate, plus 40 basis points. The note was paid in full on May 12, 2008.

Interest - Interest expense of the Library for the years ended July 31st approximated \$600 and \$3,104 for 2008 and 2007, respectively.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Contingent Liabilities

Tax revenue - The Library has received advances from the Berrien County Tax Revolving Fund for delinquent taxes assessed on real property. If those taxes prove to be uncollectible, the Library will be responsible for repayment. Taxes advanced by the county, during the fiscal years ending July 31st were \$9,439 and \$8,024 for 2008 and 2007, respectively.

Unemployment taxes - The Library has elected to reimburse the Michigan Employment Security Agency for any unemployment benefits paid to former employees.

Grant Revenue

In November 2007, the Library of Michigan approved the Library's PAC HUG Round Two application for funding provided the Bill & Melinda Gates Foundation. The grant was approved for \$1,385. In December 2007, the Library ordered a computer through the Southwest Library Cooperative in the amount of \$1,011. The Library of Michigan disbursed the grant funds directly to the library cooperative.

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 78,624
Differences in the statement of net assets:	
Capital assets are not financial resources, and are not reported in the funds	507,751
Compensated absences are included as a liability	<u>(6,083)</u>
Net Assets of General Fund – Full Accrual Basis	<u>\$ 580,292</u>

**Eau Claire District Library
Notes to Financial Statements
July 31, 2008**

**Reconciliation of Fund Financial Statements to Government-wide Financial
Statements (Continued)**

Net Change in Fund Balances – Modified Accrual Basis **\$ (3,936)**

Differences in the statement of net assets:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	23,777
Capital outlay	21,435
Depreciation	(39,828)
Net effect of disposition of capital asset	(287)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(509)
Repayments of principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>21,017</u>
Change in Net Assets of General Fund – Full Accrual Basis	<u>\$ 21,669</u>

Eau Claire District Library
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended July 31, 2008

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Over (Under)
Revenues:				
Property taxes	\$ 135,025	\$ 130,000	\$ 137,558	\$ 7,558
Penal fines	73,650	70,000	70,160	160
State grants	2,500	5,425	7,900	2,475
Fees and book fines	1,800	1,850	2,790	940
Interest and dividends	2,200	500	439	(61)
Contributions and donations	<u>2,850</u>	<u>1,500</u>	<u>5,866</u>	<u>4,366</u>
Total revenue	218,025	209,275	224,713	15,438
Expenditures:				
Salaries and fringe benefits	108,272	115,233	120,357	5,124
Library books and materials	18,850	21,500	23,777	2,277
Repairs and maintenance	4,000	3,000	3,203	203
Utilities	12,550	12,500	12,428	(72)
Professional services and dues	10,250	11,300	6,112	(5,188)
Office and library supplies	6,550	7,550	9,903	2,353
Insurance and bonds	6,500	6,600	6,438	(162)
Newspaper and publications	2,000	2,000	1,993	(7)
Conventions & workshops	1,000	300	227	(73)
Miscellaneous	-	-	758	758
Bad debts	-	-	400	400
Capital outlay	2,378	2,475	21,435	18,960
Debt service:				
Principal	18,700	21,631	21,017	(614)
Interest	<u>-</u>	<u>-</u>	<u>600</u>	<u>600</u>
Total expenditures	<u>191,050</u>	<u>204,089</u>	<u>228,649</u>	<u>24,560</u>
Excess of Revenue over Expenditures /				
Change in Net Assets	<u>26,975</u>	<u>5,186</u>	<u>(3,936)</u>	<u>(9,122)</u>
Fund Balance/Net Assets - beginning of year	<u>82,560</u>	<u>82,560</u>	<u>82,560</u>	<u>-</u>
Fund Balance/Net Assets - end of year	<u>\$ 109,535</u>	<u>\$ 87,746</u>	<u>\$ 78,624</u>	<u>\$ (9,122)</u>

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CERTIFIED PUBLIC ACCOUNTANTS

Audit Results Communication

December 17, 2008

Eau Claire District Library
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We completed our audit of the financial statements of the Eau Claire District Library for the year ended July 31, 2008 and expect to issue our report thereon dated December 17, 2008. The following comments summarize the results of our audit:

In planning and performing our audit of the financial statements of the Eau Claire District Library, in accordance with auditing standards generally accepted in the United States of America, we considered Eau Claire District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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We offer the following comment to strengthen your internal controls:

Bank Reconciliations - A very important characteristic of effective internal control is an appropriate segregation of functional responsibilities. It appears that no one other than the bookkeeper, who prepares the bank reconciliations, reviews the reconciliations. The board president and/or treasurer should review the bank reconciliations at the monthly board meeting with the related financial data.

We offer the following comment to maintain compliance with state budget regulations:

Budget - Since the budget process includes a great deal of estimating, it is not unusual for significant variances to develop. We recommend the board monitor expenditures and amend the budget as necessary.

We offer the additional comment, which is not considered to be a deficiency in internal control:

Conflict of Interest Policy - The purpose of a conflict of interest policy is to protect an organization's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the organization and give direction to the board when a possible conflict is identified. The Library does not currently have a written conflict of interest policy and we recommend the Library consider adopting a policy.

This communication is intended solely for the information and use of management, the Library board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the friendliness and cooperation extended to us during this audit.

Sincerely,

Rendel Elie & Associates, PLC

RENDEL ELIE & ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

RENDEL ELIE
— & —
ASSOCIATES PLC
CERTIFIED PUBLIC ACCOUNTANTS

December 17, 2008

Eau Claire District Library
PO Box 328
Eau Claire, MI 49111

We have audited the financial statements of the Eau Claire District Library for the year ended July 31, 2008, and have issued our report thereon dated December 17, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 11, 2006, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you on June 17, 2008 about planning matters.

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Eau Claire District Library are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

1010 Main Street
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(269) 983-1069
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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). We proposed numerous adjusting journal entries, which in our judgment, were not material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2008.

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Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Eau Claire District Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Rendel Elie & Associates, PLC

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